

PASADENA AREA COMMUNITY COLLEGE DISTRICT

Audit Report

INTEGRATED WASTE MANAGEMENT PROGRAM

Chapter 1116, Statutes of 1992,
and Chapter 764, Statutes of 1999

July 1, 1999, through June 30, 2008



JOHN CHIANG
California State Controller

April 2011



JOHN CHIANG
California State Controller

April 4, 2011

William E. Thomson, President
Board of Trustees
Pasadena Area Community College District
1570 E. Colorado Blvd. – C235
Pasadena, CA 91106-2003

Dear Mr. Thomson:

The State Controller's Office audited the costs claimed by Pasadena Area Community College District for the legislatively mandated Integrated Waste Management Program (Chapter 1116, Statutes of 1992, and Chapter 764, Statutes of 1999) for the period of July 1, 1999, through June 30, 2008.

The district claimed \$2,145,216 (\$2,263,005 less a \$117,789 penalty for filing late claims) for the mandated program. Our audit disclosed that \$177,170 is allowable and \$1,968,046 is unallowable. The costs are unallowable because the district estimated salaries and benefits, claimed reimbursement for hazardous waste and non-mandated equipment, did not offset avoided disposal fees, and understated recycling revenues. The State made no payments to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$177,170, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Web site at www.csm.ca.gov/docs/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: Richard Van Pelt, Interim Vice-President
Administrative Services
Pasadena Area Community College District
Odessa Walker, Director of Fiscal Services
Pasadena Area Community College District
Brigitte Norsworthy, Principal Accountant
Pasadena Area Community College District
Christine Atalig, Auditor
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California Community Colleges Chancellor's Office
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Pasadena Area Community College District for the legislatively mandated Integrated Waste Management Program (Chapter 1116, Statutes of 1992, and Chapter 764, Statutes of 1999) for the period of July 1, 1999, through June 30, 2008.

The district claimed \$2,145,216 (\$2,263,005 less a \$117,789 penalty for filing late claims) for the mandated program. Our audit disclosed that \$177,170 is allowable and \$1,968,046 is unallowable. The costs are unallowable because the district estimated salaries and benefits, claimed reimbursement for hazardous waste and non-mandated equipment, did not offset avoided disposal fees, and understated recycling revenues. The State made no payments to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$177,170, contingent upon available appropriations.

Background

On March 25, 2004, the Commission on State Mandates (CSM) adopted its statement of decision finding that Public Resources Code sections 40148, 40196.3, 42920-42928, Public Contract Code section 12167 and 12167.1; and the State Agency Model Integrated Waste Management Plan (February 2000) require new activities which constitute new programs or higher levels of service for community college districts within the meaning of article XIII B, section 6, of the California Constitution, and impose costs mandated by the state pursuant to Government Code section 17514.

Specifically, the CSM approved this test claim for the increased costs of performing the following specific new activities:

- Comply with the model plan (Public Resources Code section 42920(b)(3) and State Agency Model Integrated Waste Management Plan, February 2000),
- Designate a solid waste reduction and recycling coordinator (Public Resources Code section 42920(c),
- Divert solid waste (Public Resources Code sections 42921 and 42922(i),
- Report to the Board (Public Resources Code sections 42926(a) and 42922(i), and
- Submit recycled material reports (Public Contract Code section 12167.1).

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. The CSM adopted the parameters and guidelines on March 30, 2005, and last amended it on September 26, 2008. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

**Objective, Scope,
and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Integrated Waste Management Program for the period of July 1, 1999, through June 30, 2008.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by generally accepted government auditing standards. However, the district declined our request.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Pasadena Area Community College District claimed \$2,145,216 (\$2,263,005 less a penalty for filing late claims) for costs of the Integrated Waste Management Program. Our audit disclosed that \$177,170 is allowable and \$1,968,046 is unallowable.

The State made no payments to the district. Our audit disclosed that \$177,170 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$177,170, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on March 11, 2011. Richard Van Pelt, Interim Vice-President, Administrative Services, responded by letter dated March 23, 2011 (Attachment), disagreeing with the audit results. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of Pasadena Area Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, the California Department of Resources Recycling and Recovery, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

April 4, 2011

Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2008

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1999, through June 30, 2000</u>				
Direct costs:				
Salaries and benefits	\$ 74,228	\$ 3,074	\$ (71,154)	Finding 1
Contract services	854	—	(854)	Finding 2
Total direct costs	75,082	3,074	(72,008)	
Indirect costs	22,269	922	(21,347)	Finding 1
Total direct and indirect costs	97,351	3,996	(93,355)	
Less offsetting savings	—	—	—	
Less offsetting revenues	(1,287)	(5,132)	(3,845)	Finding 5
Less late filing penalty	(9,606)	(9,606)	—	
Subtotal	86,458	(10,742)	(97,200)	
Adjustment to eliminate negative balance	—	10,742	10,742	
Total program costs	<u>\$ 86,458</u>	—	<u>\$ (86,458)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Direct costs:				
Salaries and benefits	\$ 145,740	\$ 749	\$ (144,991)	Finding 1
Contract services	1,965	101	(1,864)	Finding 2
Total direct costs	147,705	850	(146,855)	
Indirect costs	43,722	225	(43,497)	Finding 1
Total direct and indirect costs	191,427	1,075	(190,352)	
Less offsetting savings	—	—	—	
Less offsetting revenues	(875)	(7,643)	(6,768)	Finding 5
Less late filing penalty	(19,055)	(19,055)	—	
Subtotal	171,497	(25,623)	(197,120)	
Adjustment to eliminate negative balance	—	25,623	25,623	
Total program costs	<u>\$ 171,497</u>	—	<u>\$ (171,497)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Salaries and benefits	\$ 208,290	\$ 18,021	\$ (190,269)	Finding 1
Contract services	8,026	5,903	(2,123)	Finding 2
Total direct costs	216,316	23,924	(192,392)	
Indirect costs	62,487	5,406	(57,081)	Finding 1

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002 (continued)</u>				
Total direct and indirect costs	278,803	29,330	(249,473)	
Less offsetting savings	—	(3,804)	(3,804)	Finding 4
Less offsetting revenues	(322)	(5,792)	(5,470)	Finding 5
Less late filing penalty	(27,848)	(27,848)	—	
Subtotal	250,633	(8,114)	(258,747)	
Adjustment to eliminate negative balance	—	8,114	8,114	
Total program costs	<u>\$ 250,633</u>	—	<u>\$ (250,633)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u><u>\$ —</u></u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits	\$ 229,024	\$ 34,529	\$ (194,495)	Finding 1
Contract services	9,975	7,655	(2,320)	Finding 2
Total direct costs	238,999	42,184	(196,815)	
Indirect costs	68,707	10,359	(58,348)	Finding 1
Total direct and indirect costs	307,706	52,543	(255,163)	
Less offsetting savings	—	(7,466)	(7,466)	Finding 4
Less offsetting revenues	(131)	(8,241)	(8,110)	Finding 5
Less late filing penalty	(30,758)	(30,758)	—	
Total program costs	<u>\$ 276,817</u>	6,078	<u>\$ (270,739)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u><u>\$ 6,078</u></u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 220,719	\$ 48,131	\$ (172,588)	Finding 1
Contract services	10,864	8,499	(2,365)	Finding 2
Total direct costs	231,583	56,630	(174,953)	
Indirect costs	66,216	14,440	(51,776)	Finding 1
Total direct and indirect costs	297,799	71,070	(226,729)	
Less offsetting savings	—	(17,765)	(17,765)	Finding 4
Less offsetting revenues	(400)	(7,192)	(6,792)	Finding 5
Less late filing penalty	(29,740)	(29,740)	—	
Total program costs	<u>\$ 267,659</u>	16,373	<u>\$ (251,286)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u><u>\$ 16,373</u></u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 208,505	\$ 60,708	\$ (147,797)	Finding 1
Contract services	12,294	8,600	(3,694)	Finding 2
Total direct costs	220,799	69,308	(151,491)	
Indirect costs	68,390	19,912	(48,478)	Finding 1
Total direct and indirect costs	289,189	89,220	(199,969)	
Less offsetting savings	—	(28,651)	(28,651)	Finding 4
Less offsetting revenues	(1,798)	(5,805)	(4,007)	Finding 5
Total program costs	<u>\$ 287,391</u>	54,764	<u>\$ (232,627)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 54,764</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries and benefits	\$ 169,546	\$ 67,011	\$ (102,535)	Finding 1
Contract services	4,149	731	(3,418)	Finding 2
Total direct costs	173,695	67,742	(105,953)	
Indirect costs	55,611	21,979	(33,632)	Finding 1
Total direct and indirect costs	229,306	89,721	(139,585)	
Less offsetting savings	—	(74,054)	(74,054)	Finding 4
Less offsetting revenues	(1,407)	(6,317)	(4,910)	Finding 5
Total program costs	<u>\$ 227,899</u>	9,350	<u>\$ (218,549)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 9,350</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries and benefits	\$ 173,527	\$ 57,065	\$ (116,462)	Finding 1
Materials and supplies	308	308	—	
Contract services	6,778	—	(6,778)	Finding 2
Fixed assets	68,403	11,401	(57,002)	Finding 3
Total direct costs	249,016	68,774	(180,242)	
Indirect costs	56,917	18,717	(38,200)	Finding 1
Total direct and indirect costs	305,933	87,491	(218,442)	
Less offsetting savings	—	(65,334)	(65,334)	Finding 4
Less offsetting revenues	(1,175)	(6,528)	(5,353)	Finding 5
Total program costs	<u>\$ 304,758</u>	15,629	<u>\$ (289,129)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 15,629</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Salaries and benefits	\$ 192,872	\$ 69,968	\$ (122,904)	Finding 1
Contract services	20,792	16,830	(3,962)	Finding 2
Total direct costs	213,664	86,798	(126,866)	
Indirect costs	61,140	22,180	(38,960)	Finding 1
Total direct and indirect costs	274,804	108,978	(165,826)	
Less offsetting savings	—	(25,323)	(25,323)	Finding 4
Less offsetting revenues	(1,918)	(7,897)	(5,979)	Finding 5
Less late filing penalty	(782)	(782)	—	
Total program costs	<u>\$ 272,104</u>	74,976	<u>\$ (197,128)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 74,976</u>		
<u>Summary: July 1, 1999, through June 30, 2008</u>				
Direct costs:				
Salaries and benefits	\$ 1,622,451	\$ 359,256	\$ (1,263,195)	
Materials and supplies	308	308	—	
Contract services	75,697	48,319	(27,378)	
Fixed assets	68,403	11,401	(57,002)	
Total direct costs	1,766,859	419,284	(1,347,575)	
Indirect costs	505,459	114,140	(391,319)	
Total direct and indirect costs	2,272,318	533,424	(1,738,894)	
Less offsetting savings	—	(222,397)	(222,397)	
Less offsetting revenues	(9,313)	(60,547)	(51,234)	
Less late filing penalty	(117,789)	(117,789)	—	
Subtotal	2,145,216	132,691	(2,012,525)	
Adjustment to eliminate negative balance	—	44,479	44,479	
Total program costs	<u>\$ 2,145,216</u>	177,170	<u>\$ (1,968,046)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 177,170</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated salaries, benefits, and related indirect costs

The district claimed \$1,622,451 in salaries and benefits during the audit period. We determined that \$359,256 is allowable and \$1,263,195 is unallowable. The costs are unallowable because the district claimed costs that were based on estimates and were not supported with source documentation. The related unallowable indirect costs totaled \$391,319.

We initially determined that all of the costs claimed were unallowable because they were based on estimates and were not supported by any corroborating documentation. The district conducted a time study in May of 2010 for the cost component of Diverting Solid Waste. Based on the time study results, we determined that salary and benefit costs totaling \$339,584 are allowable. The related allowable indirect costs totaled \$108,092.

As noted in our comments to the districts response to the draft audit findings, we adjusted the audit adjustment downwards by \$19,672. The related allowable indirect costs totaled \$6,048.

The following table summarizes the claimed, allowable, and unallowable costs for the audit period by fiscal year:

Object Account	Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits	1999-2000	\$ 74,228	\$ 3,074	\$ (71,154)
	2000-01	145,740	749	(144,991)
	2001-02	208,290	18,021	(190,269)
	2002-03	229,024	34,529	(194,495)
	2003-04	220,719	48,131	(172,588)
	2004-05	208,505	60,708	(147,797)
	2005-06	169,546	67,011	(102,535)
	2006-07	173,527	57,065	(116,462)
	2007-08	192,872	69,968	(122,904)
		1,622,451	359,256	(1,263,195)
Indirect costs	---	505,459	114,140	(391,319)
Total		<u>\$ 2,127,910</u>	<u>\$ 473,396</u>	<u>\$ (1,654,514)</u>

The following table summarizes the claimed, allowable, and unallowable salaries and benefits for the audit period by reimbursable cost component:

Reimbursable Component	Amount Claimed	Amount Allowable	Audit Adjustment
Policies and Procedures	\$ 7,278	\$ 330	\$ (6,948)
Staff Training	42,102	14,991	(27,171)
Complete and Submit Plan to Board	4,411	4,411	—
Designate Recycling Coordinator	19,397	—	(19,397)
Divert Solid Waste / Maintain Required Level	1,510,036	339,584	(1,170,452)
Time Extension	2,441	—	(2,441)
Accounting System	10,625	—	(10,625)
Annual Recycling Material Reports	26,161	—	(26,161)
Total	<u>\$ 1,622,451</u>	<u>\$ 359,256</u>	<u>\$ (1,263,195)</u>

Background

We initially determined that all of the claimed salary and benefit costs were based on estimates and not supported by corroborating source documentation. We met with district representatives on February 25, 2010, to inform them that the costs were unallowable as claimed because they were based on estimates of time spent performing mandated activities.

The district requested that it be allowed to perform a time study during the current period of time spent performing the “diverting solid waste/maintaining the required level” cost component. This cost component is found in section IV.B.5 of the parameters and guidelines, which states:

Divert at least 25 percent of all solid waste from landfill disposal or transformation facilities by January 1, 2002, and at least 50 percent of all solid waste from landfill disposal or transformation facilities by January 1, 2004, through source reduction, recycling, and composting activities. Maintain the required level of reduction, as approved by the Board.

We agreed with the district’s proposal to conduct a time study and noted that we would apply the time study results to the audit period as appropriate.

Time Study Results

The district performed a two-week time study during May of 2010. The time study actually consisted of 12 working days, as district employees performing the mandated activities do not work on Sundays. The time study consisted of time spent by ten custodians, six gardeners, and one power sweep operator. These employees kept a log of all of the activities they performed throughout the day, including, but not limited to, stocking supplies, recycling, and picking up litter around the campus.

Time Study Cumulative Hours

The district tallied the total time devoted to recycling and composting activities and calculated 172.9 cumulative hours spent over the 12 days. We reviewed the daily logs and determined that 168.28 hours were spent on mandated activities. We noted that the time study results included 4.62 hours spent on non-mandated activities, such as lawn mowing and discussing the time study record-keeping process with the Facilities Supervisor.

Daily Average per Position

We calculated a daily average of time spent performing mandated activities by employee classification. For instance, the time study revealed that custodians spent 109.03 cumulative hours devoted to mandated activities, which is approximately 9.086 hours per day (109.03 total hours ÷ 12 time-studied days), or 0.91 hours per day per custodian (9.086 hours per day ÷ 10 custodians).

The following table summarizes the time study results by employee classification:

Position	(A) Cumulative Hours	(B) Average Hours per Day [(B) = (A) ÷ 12]	(C) Average Hours per Day per Employee [(C) = (B) ÷ number of employees]
10 Custodians	109.03	9.086	0.91
6 Gardeners	46.67	3.889	0.65
1 Power Sweep Operator	12.58	1.048	1.05
Total	168.28	14.023	2.61

Time Study Allocation of Hours

We then determined an allocation of the time study results based on the requirements of the mandated program. Public Resources Code section 42921 requires that 25% of all solid waste be diverted by January 1, 2002, and that 50% of all solid waste be diverted by January 1, 2004. Prior to January 1, 2002, there was no mandated solid waste diversion requirement.

The following table summarizes our calculations of the actual diversion percentages achieved by the district in comparison to the mandated diversion requirements:

Fiscal Year	Dates	Required Diversion Percentage	Actual Diversion Percentage *
1999-2000	07/01/99–12/31/99	0%	0%
1999-2000	01/01/00–06/30/00	0%	0%
2000-01	07/01/00–12/31/00	0%	0%
2000-01	01/01/01–06/30/01	0%	24.10%
2001-02	07/01/01–12/31/01	0%	24.10%
2001-02	01/01/02–06/30/02	25%	26.30%
2002-03	07/01/02–12/31/02	25%	26.30%
2002-03	01/01/03–06/30/03	25%	46.50%
2003-04	07/01/03–12/31/03	25%	46.50%
2003-04	01/01/04–06/30/04	50%	50.10%
2004-05	07/01/04–12/31/04	50%	50.10%
2004-05	01/01/05–06/30/05	50%	50.80%
2005-06	07/01/05–12/31/05	50%	50.80%
2005-06	01/01/06–06/30/06	50%	86.80%
2006-07	07/01/06–12/31/06	50%	86.80%
2006-07	01/01/07–06/30/07	50%	*
2007-08	07/01/07–12/31/07	50%	*
2007-08	01/01/08–06/30/08	50%	*

* Information provided by the California Department of Resources Recycling and Recovery (CalRecycle), formerly the Integrated Waste Management Board, as reported by the Pasadena Area Community College District. The reporting of diversion percentages was no longer required by CalRecycle as of January 1, 2007, although community college districts are still statutorily required to maintain this information.

This table documents that the district was diverting a larger percentage of tonnage than that required by the mandated program during fiscal year (FY) 2001-02 through FY 2006-07. For instance, in calendar year 2006, the district was required to achieve a 50% diversion rate, yet the district was reporting a diversion rate of 86.80%. We noted that CalRecycle no longer required community college districts to report tonnage diverted as of January 1, 2007. The district did not provide information to us related to tonnage of waste diverted in calendar years 2007 and 2008. In the absence of this information, we used the diversion rate of 86.80% for years 2007 and 2008. We allocated the time study results to be consistent with the requirements of the mandated program.

The following table documents how we allocated the time study results for the years included in the audit period:

	(A)	(B)	(C)	(D)
May 2010 Time Study Results		Required	May 2010	Allocated Time
Position	Hours	Diversion	Actual	Study Hours
		Percentage	Diversion	[(D) = [(B) ÷ (C)] × (A)]
			Percentage	
07/01/99–12/31/01:				
Custodians	0.91	0%	86.80%	—
Gardeners	0.65	0%	86.80%	—
Power Sweep Operators	1.05	0%	86.80%	—
	<u>2.61</u>			<u>—</u>
01/01/02–12/31/03:				
Custodians	0.91	25%	86.80%	0.26
Gardeners	0.65	25%	86.80%	0.19
Power Sweep Operators	1.05	25%	86.80%	0.30
	<u>2.61</u>			<u>0.75</u>
01/01/04–06/30/08:				
Custodians	0.91	50%	86.80%	0.52
Gardeners	0.65	50%	86.80%	0.37
Power Sweep Operators	1.05	50%	86.80%	0.60
	<u>2.61</u>			<u>1.50</u>

If the district is able to provide documentation showing that it diverted waste at a percentage lower than 86.8% during the time study period of May 2010, we will revise the allocated time study hours shown in column (D) accordingly.

We applied the allocated time study hours for each fiscal year (as shown in column (D)) by the number of employees claimed. Using the average productive hourly rates for these employee classifications, we determined that \$339,584 in salaries and benefits is reimbursable. The related allowable indirect costs totaled \$108,092.

New Time Study Proposal

During our audit exit conference with the district, Richard Van Pelt, Interim Vice President of Administrative Services, expressed dissatisfaction with the methodology used for the time study. His views were echoed by Sarah Flores, Grounds Supervisor. Mr. Van Pelt expressed the district's belief that capturing time spent by district staff over a two-week period performing certain mandated activities did not reflect the actual cost incurred by the district. Mr. Van Pelt proposed a

revised methodology, in which the district would analyze the cost incurred by the district to process one ton of various recyclable materials (aluminum cans, paper, plastics, cardboard, etc.). We responded that the proposal seemed reasonable and asked that the district send us a plan explaining how it intends to capture the costs for these activities. If the district subsequently provides an analysis that more closely captures the costs incurred to perform the mandated activities, we will revise the audit results as appropriate.

Recommendation

We recommend that the district ensure that claimed costs include only eligible costs and are based on actual costs that are appropriately supported by source documentation. Documentation should identify the mandated functions performed and support the actual number of hours devoted to each function.

District's Response

The draft audit report states that the District claimed unallowable salaries and benefits in the amount of \$1,680,234, of which \$1,282,867 are direct costs and \$397,367 are related indirect costs.

1. Estimated and Unsupported Costs

The draft audit report disallows a total of \$112,415 (\$1,622,451 - \$1,510,036 = \$112,415) in direct costs for staff time claimed for policies and procedures, staff training, submitting the plan to the state board, recycling coordinator time, report filing extension requests, accounting system, and annual reports. The reason stated is that the time reported is based on "estimates" and are without "corroborating documentation." None of the time was disallowed as unreasonable. The audit made no findings that the staff time reported was not related to the mandate. The audit report characterizes the disallowed time as "estimates." It should be remembered that the parameters and guidelines were adopted on March 30, 2005, and the first claiming instructions for the initial fiscal years were released thereafter. Claimants had no actual notice of approved reimbursement for this program until that time. It seems unreasonable to require contemporaneous documentation of daily staff time for the retroactive initial fiscal years. While some historic staff time can be reconstructed from calendars and desk diaries, other staff time cannot and must be reported as a good-faith estimate. While the District agrees with the audit report recommendation that the claimants maintain records that document actual time spent on mandate-related activities, it would be more realistic standard for fiscal years after the initial fiscal year claims.

2. Time Study Results

The audit initially determined that the solid waste diversion costs (\$1,510,036) were entirely unallowable because they were unsupported by sufficient or appropriate documentation, as it did for the other program costs discussed above. At the first exit conference on February 25, 2010, the District determined that it would conduct a time study to replace the time reports originally submitted with the claims. The auditor's evaluation of the District time study results accepted the reported time except for time spent lawn mowing and discussing the

time study process. The evaluation determined the daily average time spent by job classification and per person participating in the time study, and then multiplied that amount by the number of working days per year for each person and an average productive hourly rate for each job classification. This is a logical process, except that the audit reduced the average time per day to the statutory targets of 25% and 50%. For example, the average hours per day for custodians from the time study is .91 hours. The auditor reduced this to .26 (25% of .91 hours per day divided by 86.80%). The 80.86% figure is the amount of the actual diversion in 2006 and properly “grosses-up” the measured time to 100% diversion. The time study results for hours per day should not be reduced by the statutory target amounts. The staff cannot reduce their activities by 25% or 50%. All recycling trash receptacles have to be emptied regardless of the amount diverted. One cannot empty only 25% of the locations. Regardless of the statutory target amounts, the same amount of work and time is required here for any amount of waste diversion.

At the second exit conference on February 15, 2011, the District proposed an alternative method of identifying costs based on the cost of the diverted tonnage rather than the study of staff time because of the disproportionate results of the audited evaluation of the time study. A method to more accurately measure the cost of the mandated activities would be to record, for a finite period of time (a day or a week), the time spent by all the persons involved in the collection and processing of the recycled materials. The District will measure what is collected by categories (cans, glass, green waste, paper, etc.) to make a direct measurement of staff time per unit of measure (100 lbs., a ton, etc.) and type of material. Those results will then be used as the basis for determining the overall cost of the diversion program. Since the final audit report must be issued within a month, the District will perform this work after the final audit report is issued on the representation stated in the draft audit report that it will be reviewed and considered for a revised audit report. The District will send a proposed plan before it commences the study.

SCO's Comment

Based on the district's response, we reduced the audit adjustment for salaries and benefits by \$19,672; from \$1,282,867 to \$1,263,195. The related indirect costs totaled \$6,048.

We will address our comments in the order they appear in the district's response:

Estimated and Unsupported Costs

We concur with the district's comment that the parameters and guidelines were adopted on March 30, 2005, and that the district may not have kept any contemporaneous time records for the initial fiscal years of the mandated program. However, we disagree with the district's comment that claimants had no actual notice of approved reimbursement for this program until the parameters and guidelines were adopted. The Statement of Decision for the Integrated Waste Management Program was adopted by CSM on March 25, 2004. Claimants had notice as of this date that a reimbursable state-mandated program existed based on the test claim legislation. When we met with the district representatives on

February 25, 2010, to discuss the estimated costs, they were given an opportunity to perform a time study for these various cost components; they opted to perform a time study only on the “Divert Solid Waste / Maintain the Required Level” cost component.

Regardless of the dates involved and the time studies not performed, we again reviewed the district’s claims for the activities it cited in its response (Policies and Procedures, Staff Training, Submitting the Plan to the State Board, Recycling Coordinator Time, Report Filing Extension Requests, Accounting System, and Annual Reports). The following comments relate to these activities.

Policies and Procedures

The parameters and guidelines (Section IV.A.1–One Time Activities) identify the following reimbursable activity, beginning January 1, 2000:

Develop the necessary district policies and procedures for the implementation of the integrated waste management plan.

The district claimed \$7,278 for this activity during the audit period. Based on the requirements of the parameters and guidelines, we determined that \$330 claimed by the district only in its claim for FY 1999-2000 is allowable. This represented 12 hours claimed for the district’s Facilities Supervisor to develop policies and procedures. Costs claimed in subsequent years, totaling \$6,948, are unallowable because the costs are only allowable as a one-time activity. The district did not provide documentation showing that these costs relate to the development of, rather than updates to, policies and procedures. The related allowable indirect costs totaled \$99.

Staff Training

The parameters and guidelines (Section IV.A.2–One Time Activities) identify the following reimbursable activity, beginning January 1, 2000:

Train district staff on the requirements and implementation of the integrated waste management plan (one-time per employee). Training is limited to staff working directly on the plan.

The district claimed \$42,102 for this activity during the audit period. Based on the requirements of the parameters and guidelines, we determined that \$14,931 is allowable and \$27,171 is unallowable. The related allowable indirect costs totaled \$4,601.

The following table summarizes the claimed, allowable, and unallowable amounts by fiscal year:

Object Account	Fiscal Year	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits	1999-2000	\$ 2,414	\$ 2,414	\$ —
	2000-01	5,267	—	(5,267)
	2001-02	6,227	2,913	(3,314)
	2002-03	7,145	2,239	(4,906)
	2003-04	6,965	2,322	(4,643)
	2004-05	6,883	2,486	(4,397)
	2005-06	4,880	846	(4,034)
	2006-07	610	—	(610)
	2007-08	1,711	1,711	—
Subtotal		42,102	14,931	(27,171)
Indirect costs		13,005	4,601	(8,404)
Totals		<u>\$ 55,107</u>	<u>\$ 19,532</u>	<u>\$ (35,575)</u>

We noted that the district claimed costs for training its custodians, gardeners, a power-sweeper operator, a skilled-trades worker, and, in FY 2007-08, the Director of Facilities Services. This training was provided to district employees by the Facilities Supervisor. As noted in the audit report, the district did not provide any support for the hours claimed for training nor the type of training provided. We realize that the district trained its staff on the requirements of the mandated program. We noted that the district claimed 12 hours per year for its entire staff involved with the mandated program in all nine years of the audit period, except for FY 1999-2000, when it claimed six hours (presumably because reimbursement began on January 1, 2000) and for FY 2007-08, when it claimed only training for the Director of Facilities Services. Training in every year was provided by the Facilities Supervisor.

Therefore, allowable costs were based on training all employees in the first year of the audit period (FY 1999-2000). For all subsequent years of the audit period, allowable costs were based on training only for employees who appeared in the district's claims for the first time. In addition, we allowed time claimed for the Facilities Supervisor to provide the training. As noted in the table above, there were no allowable costs for FY 2000-01 and FY 2006-07. For FY 2000-01, training costs were claimed for the same employees who were claimed under the Training cost component in the district's claim for FY 1999-2000. For FY 2006-07, costs were claimed only for the Facilities Supervisor.

Complete and Submit Plan to the Board

The district claimed salaries and benefits totaling \$4,411 for this activity. We determined that all of the costs should be allowable because they are immaterial. The related indirect costs totaled \$1,348.

Designate Recycling Coordinator

The district claimed salaries and benefits totaling \$19,397 for this activity. We determined that none of the costs claimed are allowable.

The parameters and guidelines (Section IV.B.4—Ongoing Activities) identify the following reimbursable activity:

Designate one solid waste reduction and recycling coordinator (~~coordinator~~) for each College in the district to perform new duties imposed by chapter 18.5 (Pub. Resources Code, Sections 42920-42928). The coordinator shall act as a liaison to other state agencies (as defined By section 40196.3) and coordinators. (Pub. Resources Code, section 42920, subd. (c).

The district claimed 48 hours for this activity in FY 1999-2000; 96 hours per year for FY 2000-01 through 2004-05, 12 hours per year for FY 2005-06 and FY 2007-08, and 11 hours for FY 2006-07. All salary and benefit costs claimed were for the district's Facilities Supervisor. As noted in the audit report, the district did not provide any support for the time claimed for this activity.

We concluded that the amount of time claimed by the district for this activity appears unreasonable when compared to the description of the activity in the parameters and guidelines. Absent some kind of actual cost support for the amount of time claimed by the district, these costs remain unallowable.

Time Extension

The district included \$2,441 for this activity in its claim for FY 2006-07. However, we determined that all of the costs claimed are unallowable as claimed.

The parameters and guidelines (Section IV.C.2—Alternative Compliance) identify the following reimbursable activity:

Seek either an alternative requirement or time extension if a community college is unable to comply with the January 1, 2004, deadline to divert 50 percent of its solid waste...

The parameters and guidelines also note that the activities described within Section IV.C. (Alternative Compliance) are reimbursable only during the period of January 1, 2000, through December 31, 2005. Therefore, costs claimed for FY 2006-07 are unallowable.

Accounting System

The district claimed salaries and benefits totaling \$10,625 for this cost component during the audit period. We determined that all of the costs claimed are unallowable.

The parameters and guidelines (Section IV.D–Accounting System) identify the following reimbursable activities:

Developing, implementing, and maintaining an accounting system to enter and track the college's source reduction, recycling, and composting activities, the cost of those activities, the proceeds from the sale of any recycled materials, and such other accounting systems which will allow it to make its annual reports to the state and determine waste reduction. Note: only the pro-rata portion of the costs incurred to implement the reimbursable activities can be claimed.

The district claimed 24 hours for this cost component in FY 1999-2000—48 hours per year for FY 2000-01 through 2004-05, and 12 hours per year for FY 2005-06 through FY 2007-08. All salary and benefit costs claimed were for the district's Facilities Supervisor. As noted in the audit report, the district did not provide any support for the time claimed for this activity.

We concluded that the amount of time claimed by the district for this activity appears unreasonable when compared to the description of the activities in the parameters and guidelines. The district's Facilities Coordinator involvement in activities related to developing, implementing, and maintaining an accounting system do not fit within the job duties for this employee classification. Further, the district did not provide evidence of any accounting system(s) that were developed, implemented, and maintained during the audit period to comply with the mandated program. Absent some kind of actual cost support for the amount of time claimed by the district, these costs remain unallowable.

Annual Recycling Material Reports

The district claimed salaries and benefits totaling \$26,161 for this cost component during the audit period. We determined that all of the costs are unallowable.

The parameters and guidelines (Section IV.F–Annual Recycled Material Reports) identify the following reimbursable activity:

Annually report to the Board on quantities of recyclable materials collected for recycling.

The district's claims specify that the costs were incurred for —Reporting annually to the Board quantities of recyclable materials collected.” We followed up with Cal Recycle (formerly the Integrated Waste Management Board), which stated that the district did not submit any annual reports to it identifying quantities of recyclable materials collected. Therefore, we concluded that it was unreasonable for the district to claim costs for activities not performed.

Time Study Results

The district objects to the methodology that we used to allocate time recorded within the district's time study to the audit period. As we noted in the audit report, the district's time study was performed in May of 2010. The district was achieving a solid waste diversion percentage of 86.8% at that time.

The mandated program requires only that the district achieve a solid waste diversion percentage of 25% beginning January 1, 2002, and a 50% diversion percentage by January 1, 2004. Reimbursement is not available under the mandated program for diversion percentages beyond the target amounts. Therefore, some kind of allocation method is appropriate to reduce reimbursement based on the district's level of effort to that required by the mandated program.

We recognize the district cannot reduce its diversion activities to achieve the mandated levels of 25% or 50%. We also recognize that all recycling trash receptacles have to be emptied regardless of the amount diverted. However, it is reasonable to develop an allocation method when applying a 2010 time study to calendar year 2002. The district did not report any waste diversion percentages to Cal Recycle for waste diversion that occurred after December 31, 2006. The latest percentages that we have available from the district were for calendar year 2006. In that year, district staff diverted 4,491.5 tons compared to only 221.3 tons in 2002. Accordingly, we adjusted the level of effort performed in calendar year 2010 to the level of effort performed in calendar year 2002. In our audit report, we explained that our calculations were based on an assumed diversion percentage of 86.8% in calendar year 2010. We also mentioned in our audit report that if the district can support a diversion percentage lower than 86.8% for calendar year 2010, we will revise the audit results accordingly.

In its response, the district has agreed to perform a new time study using a methodology that should more accurately reflect the costs incurred by the district to perform the mandated activities. Therefore, once the results of this new time study become available, we will revise the audit results as appropriate. As the new time study will be based on costs to divert solid waste by tonnage, no allocation will be required and this entire discussion will then become a moot point.

**FINDING 2—
Overstated contract
service costs**

The district claimed \$75,697 in contract service costs for the audit period. We determined that \$48,319 is allowable and \$27,378 is unallowable. The unallowable costs occurred because the district claimed reimbursement for recycling hazardous wastes.

The following table summarizes the claimed, allowable, and unallowable costs for the audit period by fiscal year:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
1999-2000	\$ 854	\$ —	\$ (854)
2000-01	1,965	101	(1,864)
2001-02	8,026	5,903	(2,123)
2002-03	9,975	7,655	(2,320)
2003-04	10,864	8,499	(2,365)
2004-05	12,294	8,600	(3,694)
2005-06	4,149	731	(3,418)
2006-07	6,778	—	(6,778)
2007-08	20,792	16,830	(3,962)
Total	<u>\$ 75,697</u>	<u>\$ 48,319</u>	<u>\$ (27,378)</u>

The following table summarizes the claimed, allowable, and unallowable costs by individual vendor.

<u>Vendor</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Southern California Environmental	\$ 31,389	\$ 31,389	\$ —
Lighting Resources	27,378	—	(27,378)
Commercial Waste Services	16,829	16,829	—
Allan Company	101	101	—
Total	<u>\$ 75,697</u>	<u>\$ 48,319</u>	<u>\$ (27,378)</u>

We noted that the district claimed \$27,378 for recycling batteries and lamps with vendor Lighting Resources. Both lamps and batteries have been determined to contain hazardous waste (such as mercury, silver, lead, and chromium). However, reimbursement for the mandated program is limited to activities involving solid waste. Public Resources Code section 42921(b) states that —each large facility shall divert 50% of all **solid waste** (emphasis added) through source reduction, recycling, and composting activities.” In addition, Public Resources Code section 40191 (b) (1) states that —Solid waste does not include hazardous waste.”

Recommendation

We recommend that the district only claim reimbursement for the costs of disposing solid waste.

District’s Response

The District has no additional information available at this time regarding the \$27,378 adjustment for the disposal of batteries and lamps.

SCO’s Comments

The finding and recommendation remains unchanged.

**FINDING 3—
Overstated fixed asset
costs**

The district claimed \$68,403 for fixed assets purchased during FY 2006-07. We determined that \$11,401 is allowable and \$57,002 is unallowable. The unallowable costs occurred because the district claimed reimbursement for unallowable equipment purchases.

In February of 2007, the district purchased six Taylor-Dunn trucks from Cart Masters. The district claimed \$68,043, which represents 100% of the purchase price for all six trucks. However, the district's Facilities Coordinator stated that only one of the six trucks is used 100% for recycling. Therefore, only 1/6th of the total purchase is reimbursable ($\$68,403 \div 6 = \$11,401$).

District representatives expressed their belief that the five remaining trucks are sometimes used for mandated activities. If the district can provide support for an applicable allocation percentage, we will revise the audit results as appropriate. Reimbursement under the mandated program is limited to increased costs. Therefore, if the district transports both trash and recyclables in the same vehicle at the same time, no additional costs were incurred.

Recommendation

We recommend that the district claim reimbursement only for mandated costs.

District's Response

The District has no additional information available at this time regarding a potential reimbursable allocation of the asset cost for the five trucks disallowed by the audit based on time used for waste diversion.

SCO's Comment

The finding and recommendation remains unchanged.

**FINDING 4—
Understated offsetting
savings**

The district did not identify any offsetting savings in its mandated cost claims for the audit period. We determined the district should have reported offsetting savings totaling \$222,397 for the audit period.

The following table summarizes the audit adjustment for offsetting savings by fiscal year:

<u>Fiscal Year</u>	<u>Offset Claimed</u>	<u>Offset Allowable</u>	<u>Audit Adjustment</u>
1999-2000	\$ —	\$ —	\$ —
2000-01	—	—	—
2001-02	—	3,804	3,804
2002-03	—	7,466	7,466
2003-04	—	17,765	17,765
2004-05	—	28,651	28,651
2005-06	—	74,054	74,054
2006-07	—	65,334	65,334
2007-08	—	25,323	25,323
Total	\$ —	\$ 222,397	\$ 222,397

Background

The parameters and guidelines for the program (section VIII – Offsetting Cost Savings) state that “reduced or avoided costs realized from implementation of the community college districts’ Integrated Waste Management plans shall be identified and offset from this claim as cost savings, consistent with the directions for revenue in Public Contract Code sections 12167 and 12167.1.”

Public Contract Code sections 12167 and 12167.1 require agencies in state-owned and state-leased buildings to deposit all revenues from the sale of recyclables into the Integrated Waste Management Account in the Integrated Waste Management Fund, which are continuously appropriated to the Board for the purposes of offsetting recycling program costs. For the audit period, the district did not deposit any revenue into the Integrated Waste Management Account in the Integrated Waste Management Fund. Regardless, we have determined that the district had reduced or avoided costs realized from implementation of its Integrated Waste Management plan that it did not identify and offset from its claims as cost savings.

The Commission on State Mandates’ (CSM) Final Staff Analysis of the proposed amendments to the parameters and guidelines (Item #8–CSM hearing of September 26, 2008) states that “cost savings may be calculated from the annual solid waste disposal reduction or diversion rates that community colleges must annually report to the Board pursuant to Public Resources Code section 42926, subdivision (b)(1).”

Offsetting Savings Calculation

In total, we determined that \$222,397 should have been offset on the district's Integrated Waste Management claims for the audit period. We multiplied the tonnage diverted (as reported by Pasadena Area CCD to the IWM Board pursuant to Public Resources Code section 42926(b)(1) by the average landfill rate per ton by the required percentage, as follows:

$$\text{Offsetting Savings} = \text{Tonnage Diverted} \times \text{Average Landfill Rate per Ton} \times \underbrace{\text{Required Mandate Percentage}}_{\substack{\text{Required} \\ \text{Diversion} \\ \text{Percentage}} \times \substack{\text{Actual} \\ \text{Diversion} \\ \text{Percentage}}}$$

Tonnage Diverted

For calendar years 2002 through 2006, we used the tonnage diverted as reported by the district to the Integrated Waste Management Board. However, as of January 1, 2007, community college districts are no longer required to report the tonnage of waste diverted, although the requirement to report tonnage disposed remains. Therefore, we used the tonnage of waste disposed to calculate the offsetting savings, under the assumption that the district would have to divert an equivalent tonnage to remain in compliance with the 50% diversion percentage required by the mandated program.

For example, as the district reported 412.9 tons disposed in calendar year 2007, the district is required to divert at least 412.9 tons to remain in compliance with the 50% diversion rate. The following table shows the calculation:

		Calendar Year 2007	
	Category	District Reported Amount	SCO Adjusted Amount
(A)	Tonnage Diverted	?	412.9
(B)	Tonnage Disposed	412.9	412.9
(C)	Total Tonnage Generated [(A) + (B)]	?	825.8
(D)	Diversion Percentage [(A) ÷ (C)]	??	50%

Similarly, the district reported 1,381.4 tons of disposed waste for calendar year 2008. Therefore, we calculated offsetting savings based on 1,381.4 tons of diverted waste.

Average Landfill Rate per Ton

The average landfill rates that we used to calculate offsetting savings for the audit period were provided to us by CalRecycle. If the district can provide documentation that it incurred different landfill rates than the ones that we used in our calculations, we will revise the finding as appropriate.

Required Mandate Percentage

As noted in Finding 1, the district was diverting a larger percentage of tonnage than that required by the mandated program. Therefore, we allocated the offsetting savings to be consistent with the requirements of the mandated program.

For example, the district reported to CalRecycle that it diverted 4,491.5 tons during calendar year 2006. However, the period of January 1, 2006 through June 30, 2006 belongs in FY 2005-06 and the period of July 1, 2006 through December 31, 2006 belongs in FY 2006-07. Accordingly, we divided the tonnage in half for each six-month period; this tonnage equals 2,245.75 tons. For the period of January 1, 2006, through June 30, 2006, the district reported that it diverted 86.8% of its trash, although the mandated program requires that the district divert at least 50% of its trash to be in compliance with the mandated program. Therefore we divided 50% by 86.8% and determined an allocation factor of 0.576037. We then multiplied the 2,245.75 tons of diverted trash times this allocation factor and then multiplied the result times the average landfill rate of \$46 to determine offsetting savings of \$59,507.

Recommendation

We recommend that the district offset all savings realized from implementation of the community college district's Integrated Waste Management plan.

District's Response

The draft audit report calculated \$222,397 of understated offsetting cost savings. The parameters and guidelines (Part VIII) now require claimants to identify and offset "reduced or avoided costs realized" from implementation of the District integrated waste management plan. The District annual claims did not identify any avoided costs since these annual claims (except for FY 2007-08) were filed before the September 26, 2008, retroactive amendment of the parameters and guidelines that established this requirement as a result of a court decision. The District agrees that the defined cost savings should be reported. However, the District has no additional information available at this time regarding the diverted tonnage or costs charged for landfill disposal.

SCO's Comment

The finding and recommendation remains unchanged.

**FINDING 5—
Understated offsetting
revenues**

The district identified \$9,313 in offsetting revenues for the audit period. We determined that the district understated offsetting revenues by \$51,234 and should have reported offsets totaling \$60,547 for the audit period. The following table summarizes the audit adjustment by fiscal year:

Fiscal Year	Offset Claimed	Offset Allowable	Audit Adjustment
1999-2000	\$ 1,287	\$ 5,132	\$ 3,845
2000-01	875	7,643	6,768
2001-02	322	5,792	5,470
2002-03	131	8,241	8,110
2003-04	400	7,192	6,792
2004-05	1,798	5,805	4,007
2005-06	1,407	6,317	4,910
2006-07	1,175	6,528	5,353
2007-08	1,918	7,897	5,979
Totals	\$ 9,313	\$ 60,547	\$ 51,234

The parameters and guidelines (section VII—Offsetting Revenues and Reimbursements) state that —Offsetting revenue shall include all revenues generated from implementing the Integrated Waste Management Plan.”

For the audit period, the district offset revenues received from recycling vendors Allan Company and Smurfit Stone only for recycled paper, plastics, aluminum cans, metal, and glass. Per discussions with district representatives, we noted that the district also receives recycling revenue from other vendors; this revenue is deposited into the following two accounts:

- 01-8890-6502 – Other Local Revenue – Building Services
- 01-8890-6504 – Other Local Revenue – Custodial Services

We determined that all of the revenue recorded in these two accounts should be offset on the district’s mandated cost claims. If the district can document that certain revenues in these accounts are not from the sale of recyclables as a result of implementing the district’s Integrated Waste Management Plan, we will revise the audit adjustment as appropriate.

Recommendation

We recommend that the district offset all revenue received from implementation of the community college district’s Integrated Waste Management plan on its mandated cost claims for this mandated program.

District's Response

The draft audit report identified \$51,234 of offsetting cost revenues. The parameters and guidelines (Part VII) require claimants to identify and offset service fees, federal funds, and other state funds relevant to the mandate activities. The District annual claims reported and offset recycling revenue received from two vendors (Allan Company and Smurfit Stone). The draft audit report identifies two —ther local revenue” accounts with amounts of about \$3,000 to \$8,000 per year as recycling income potentially attributable to the integrated waste management program. The draft audit report does not confirm hat these revenues are related to the program. However, the District has no additional information available at this time regarding the nature of those revenues.

SCO's Comment

The finding and recommendation remains unchanged.

OTHER ISSUES

The district's response included other comments related to the management representation letter and a public records request. The district's responses and SCO's comments are presented below.

**Management
Representation Letter**District's Response

The District will not be providing the requested management representation letter since the District has determined that it is outside the scope of a mandated cost compliance audit and could be construed as a waiver of future appeal rights.

SCO's Comment

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by generally accepted government auditing standards. Responding to the SCO's management representation letter does not waive the district's future appeal rights.

**Public Records
Request**District's Response

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to all of the findings for all claiming periods.

Government Code Section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from the receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and to promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

SCO's Comment

The SCO will respond to the public records request in a separate letter dated April 8, 2011.

**Attachment—
District's Response to
Draft Audit Report**



March 23, 2011

Fiscal Services

Mr. Jim L. Spano, Chief
Mandated Costs Audits Bureau
Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Integrated Waste Management
FY 1999-00 through 2007-08
Pasadena Area Community College District

Dear Mr. Spano:

This letter is the response of the Pasadena Area Community College District to the draft audit report dated March 11, 2011, received by e-mail on March 14, 2011, for the above referenced program and fiscal years, transmitted by the letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

Finding 1 - Overstated salaries, benefits, and related indirect costs

The draft audit report states that the District claimed unallowable salaries and benefits in the amount of \$1,680,234, of which \$1,282,867 are direct costs and \$397,367 are related indirect costs.

1. Estimated and Unsupported Costs

The draft audit report disallows a total of \$112,415 (\$1,622,451-\$1,510,036 = \$112,415) in direct costs for staff time claimed for policies and procedures, staff training, submitting the plan to the state board, recycling coordinator time, report filing extension requests, accounting system, and annual reports. The reason stated is that the time reported is based on "estimates" and are without "corroborating documentation." None of the time was disallowed as unreasonable. The audit made no findings that the staff time reported was not related to the mandate. The audit report characterizes the disallowed time as "estimates." It should be remembered that the parameters and guidelines were adopted on March 30, 2005, and the first claiming instructions for the initial fiscal years were released thereafter. Claimants had no actual notice of approved

reimbursement for this program until that time. It seems unreasonable to require contemporaneous documentation of daily staff time for the retroactive initial fiscal years. While some historic staff time can be reconstructed from calendars and desk diaries, other staff time cannot and must be reported as a good-faith estimate. While the District agrees with the audit report recommendation that the claimants maintain records that document actual time spent on mandate-related activities, it would be a more realistic standard for fiscal years after the initial fiscal year claims.

2. Time Study Results

The audit initially determined that the solid waste diversion costs (\$1,510,036) were entirely unallowable because they were unsupported by sufficient or appropriate documentation, as it did for the other program costs discussed above. At the first exit conference on February 25, 2010, the District determined that it would conduct a time study to replace the time reports originally submitted with the claims. The auditor's evaluation of the District time study results accepted the reported time except for time spent lawn mowing and discussing the time study process. The evaluation determined the daily average time spent by job classification and per person participating in the time study, and then multiplied that amount by the number of working days per year for each person and an average productive hourly rate for each job classification. This is a logical process, except that the audit reduced the average time per day to the statutory targets of 25% and 50%. For example, the average hours per day for custodians from the time study is .91 hours. The auditor reduced this to .26 (25% of .91 hours per day divided by 86.80%) and .52 hours per day (50% of .91 hours per day divided by 86.80%). The 80.86% figure is the amount of the actual diversion in 2006 and properly "grosses-up" the measured time to 100% diversion. The time study results for hours per day should not be reduced by the statutory target amounts. The staff cannot reduce their activities by 25% or 50%. All recycling trash receptacles have to be emptied regardless of the amount diverted. One cannot empty only 25% of the trash receptacle contents or only the trash receptacles from 25% of the locations. Regardless of the statutory target amounts, the same amount of work and time is required here for any amount of waste diversion.

At the second exit conference on February 15, 2011, the District proposed an alternative method of identifying costs based on the cost of the diverted tonnage rather than the study of staff time because of the disproportionate results of the audited evaluation of the time study. A method to more accurately measure the cost of the mandated activities would be to record, for a finite period of time (a day or a week), the time spent by all the persons involved in the collection and processing of the recycled materials. The District will measure what is collected by categories (cans, glass, green waste, paper, etc.) to make a direct measurement of staff time per unit of measure (100 lbs., a ton, etc.) and type of material. Those results will then be used as the basis for determining the overall

cost of the diversion program. Since the final audit report must be issued within a month, the District will perform this work after the final audit report is issued on the representation stated in the draft audit report that it will be reviewed and considered for a revised audit report. The District will send a proposed plan before it commences the study.

Finding 2- Overstated contract service costs

The District has no additional information available at this time regarding the \$27,378 adjustment for the disposal of batteries and lamps.

Finding 3- Overstated fixed asset costs

The District has no additional information available at this time regarding a potential reimbursable allocation of the asset cost for the five trucks disallowed by the audit based on time used for waste diversion.

Finding 4- Understated offsetting savings

The draft audit report calculated \$222,397 of understated offsetting cost savings. The parameters and guidelines (Part VIII) now require claimants to identify and offset "reduced or avoided costs realized" from implementation of the District integrated waste management plan. The District annual claims did not identify any avoided costs since these annual claims (except for FY 2007-08) were filed before the September 26, 2008, retroactive amendment of the parameters and guidelines that established this requirement as a result of a court decision. The District agrees that the defined cost savings should be reported. However, the District has no additional information available at this time regarding the diverted tonnage or costs charged for landfill disposal.

Finding 5- Understated offsetting revenues

The draft audit report identified \$51,234 of offsetting cost revenues. The parameters and guidelines (Part VII) require claimants to identify and offset service fees, federal funds, and other state funds relevant to the mandate activities. The District annual claims reported and offset recycling revenue received from two vendors (Allan Company and Smurfit Stone). The draft audit report identifies two "other local revenue" accounts with amounts of about \$3,000 to \$8,000 per year as recycling income potentially attributable to the integrated waste management program. The draft audit report does not confirm that these revenues are related to the program. However, the District has no additional information available at this time regarding the nature of those revenues.

Management Representation Letter

The District will not be providing the requested management representation letter since the District has determined that it is outside the scope of a mandated cost compliance audit and could be construed as a waiver of future appeal rights.

Public Records Request

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to all of the findings for all claiming periods.

Government Code Section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from the receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and to promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

Sincerely,



Richard Van Pelt, Interim Vice President
Administrative Services
Pasadena Area Community College District

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